Three Vital Questions Your Advisor Must Answer

To say that investing is intimidating is an understatement. That's why we recommend you work with an investing pro. You'll save time and money, and your advisor will encourage you to stay invested for the long-term.

Since this person will be so important to your financial life, **feel free to be picky.** We've put together a short list of questions to get you started in your first meeting with potential investment advisors.

What type of experience do you have?

The financial industry does not impose regulations on advisors in order for them to be recognized as professionals, so you'll need to pay attention to this answer. You want a seasoned advisor, someone who has seen the ups and downs of the market. Experience in banking or as a CPA is not the same.

What's your overall investing philosophy?

You want an advisor who believes in investing for the long-term, diversification and mutual funds with a long history of success. **An advisor who recommends a portfolio of single stocks or other risky investments *isn't* a good fit.**

The most important thing to remember is that your avisor does not make decisions for you. You should feel comfortable that your advisor has the heart of a teacher and will take the time to teach you how to make smart decisions that are focused on your needs and goals.

How are you paid?

Your advisor is paid any number of ways, so what you're looking for is an honest answer. Your advisor should be willing to explain all fees and expenses associated with the investments he or she recommends. Don't settle for anything less.

Dave prefers a commission-based advisor and funds. Over the lifetime of an investment, a commission-based fund will cost the least.

Hiring an investment advisor is a wise decision. But don't stop there. Make sure you're comfortable with your advisor's qualifications, philosophy and payment arrangements.

Five Investment Options To Avoid

Everybody's got an opinion on where to invest your money. But let's be honest: Some people just have stupid ideas—even though they may have the best intentions. You can still love your broke brother-in-law without taking his investment advice.

Here are five investment ideas you should avoid. If someone suggests using any of these options, run like the wind!

Savings Bonds

We all have relatives that give savings bonds as gifts. While we may appreciate the sentiment, the truth is that savings bonds have **a lousy rate of return**. After six months, cash them out and put the money in a good growth stock mutual fund that averages 12% interest. That way, when Grandma asks you how your savings bonds are doing, you can tell her that they are performing great!

Prepaid College Tuition

Don't prepay college tuition. If you put $10,000 in prepaid college tuition programs, all you make on that $10,000 is what tuition costs when your kid goes to school. Tuition has been increasing at an average of 7% a year nationally. But Educational Savings Accounts (ESAs) have averaged more like 12% every year. I would suggest investing the $10,000 in a growth stock mutual fund ESA where your money grows *tax free*.

Prepaid Burial Plans

The same concept is true for prepaid burial plans. If you're 40 and invest money in a mutual fund rather than paying for funeral costs, you'll have about $500,000 when you die at age 90. Who are you, King Tut? If you have gone through the gut-wrenching exercise of planning a loved one's funeral while you are grieving—selecting a casket, burial plot and so on—then you know you don't want your loved ones to experience the same thing. Fill out the paperwork so that no one has to make decisions while they are emotional. Then when the death happens, everything is organized and you have the money to afford it. **You don't save by prepaying.**

CD Savings Accounts

CDs have an extremely low rate of return, so they are bad investments. These "Certificates of Depression" typically receive a 2–3% rate of return. If inflation goes up at an average of 4% every year, then CDs will make you lose money. Keep some money available in a money market account for easy access, and then invest in mutual funds long-term.

Lottery

Yes, some people actually believe buying a lottery ticket is investing in their future. But the truth is that the lottery is a tax on poor people and on people who can't add. People who have won with money don't use the lottery. It's a rip-off instituted by our government. The lottery offers false hope, not a ticket out. Hard work and diligence are how wealth is built, not dumb luck.

The bottom line here is that rich people don't get rich off things like CD savings accounts. Instead, they **make smart investment decisions over a long period of time.** They put their money in the right places and take advice from people they can trust.